

## Untitled

### 1. INTRODUCTION

2. Q. Will you please state your name and business address?

3. A. My name is Thomas F. Killeen. My business address is 25 Research Drive, Westborough, Massachusetts.

4.

5. Q. By whom are you employed and in what capacity?

6. A. I am a Senior Financial Analyst in the Treasury Services Department of National

7. Grid USA Service Company, Inc. (Service Co.). Service Co. provides legal,

8. engineering, and other professional services for the utility subsidiaries of National

9. Grid USA, a registered public utility holding company system, which includes

10. New England Power Company (NEP), a Massachusetts Electric Company (Mass.

11. Electric), Nantucket Electric Company (Nantucket), The Narragansett Electric

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12. Company (Narragansett), Granite State Electric Company (Granite State), and

13. Service Co. National Grid USA is the successor to New England Electric System

14. and became a wholly owned indirect subsidiary of The National Grid Group plc

15. on March 22, 2000.

16.

17. Q. Please briefly summarize your educational and professional background.

18. A. I have a Bachelor of Arts degree in economics from Columbia University and a

19. Masters of Business Administration degree with a concentration in finance from

20. Babson College. I joined Service Co. in 1985 and have held various positions in

21. the Corporate Finance and Internal Audit Departments. In 2000 I joined the

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22. Treasury Services Department as a Senior Financial Analyst.

1. Q. As a Senior Financial Analyst, what are your responsibilities?

2. A. I am responsible for providing certain financial services to all National Grid USA

3. companies, including New England Power Company (NEP or the Company.)

4.

5. Q. Have you previously testified before this or any other Commission?

6. A. Yes, I have testified before the New Hampshire Public Utilities Commission in

7. rate proceedings on the subject of rate of return.

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9. Q. Would you please give a brief description of the Company?
10. A. NEP is a Massachusetts corporation and a subsidiary of National Grid USA, a
11. Delaware Corporation. NEP is qualified to do business as a foreign corporation in
12. the states of Connecticut, Maine, New Hampshire, Rhode Island, and Vermont.
13. NEP's primary business is the transmission of electric energy in wholesale
14. quantities to other electric utilities, principally its distribution affiliates, Mass.
15. Electric and Nantucket Electric, Granite State, and Narragansett which serve retail
16. customers in Massachusetts, New Hampshire, and Rhode Island.
17. On April 19, 2000, Eastern Utilities Associates (EUA) merged with and into
18. National Grid USA. On May 1, 2000, Montaup Electric Company (Montaup), a

## Untitled

19. subsidiary of the former EUA, merged with and into NEP.

20.

21. PURPOSE OF TESTIMONY

22. The purpose of my testimony is to supplement my amended testimony filed on July 26,

23. 2000 as well as to supplement my testimony given at an August 2, 2000 hearing.

1. NET UTILITY PLANT TEST

2. Q. Would you please describe Exhibit NEP-2?

3. A. Exhibit NEP-2 is a comparison of net utility plant to total capitalization as of

4. June 30, 2000.

5.

6. Q. Would you please explain the proforma adjustments to

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### Exhibit NEP-2?

7. A. The net plant test seeks to ensure that there is sufficient net utility plant to support
8. NEP's total capitalization after any proposed issues. These adjustments to
9. Exhibit NEP-2 reduce the capitalization to be supported by NEP's net utility
10. plant by subtracting the components of NEP's capitalization that relate to specific
11. assets other than net utility plant. The first adjustment (A) reduces NEP's other
12. paid in capital by the amount attributable to goodwill. When NEP's parent
13. company completed the merger with National Grid, under the purchase method of
14. accounting, the acquisition premium allocated to NEP was recorded as goodwill,
15. and the offsetting amount was an increase to other paid in capital. The second

## Untitled

16. adjustment (B) reduces NEP's total capitalization by the amounts attributable to

17. regulatory assets for which NEP has incurred expenses in the past and will

18. recover in the future.

19. Q. Which regulatory assets are you reflecting in this adjustment (B) to total

20. capitalization?

1. A. The regulatory assets reflected in this adjustment include purchased power

2. buyouts, the unamortized portion of expenses and premium incurred to redeem

3. debt, and net unrecovered stranded investment. In each of these cases, NEP has

4. already funded the expenditure, will recover these amounts in the future, and the

5. offsetting entry is reflected in capitalization.

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6. NEP did not include in this adjustment regulatory assets which have a

7. corresponding liability, such as purchased power obligations and accrued Yankee

8. nuclear plant costs. These represent amounts NEP will recover and also pay out

9. in the future. Accordingly, a liability offsets the regulatory asset and there is no

10. impact on capitalization.

11.

12 Q. Does the Company's net utility plant support the proposed amount of financing?

13. A. Yes. As shown on Exhibit NEP-2, including the adjustments described

14. above, as of June 30, 2000, NEP had net utility plant, excluding CWIP, of \$612

15. million, and total capitalization of \$420 million.

16. OTHER PAID-IN CAPITAL



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18. Q. Would you list the components of Other Paid-In Capital on the Company's
19. books?
20. A. Yes. As listed in response to record request DTE-RR-1, the Company had Other
21. Paid-In Capital of \$583 million as of March 31, 2000. The components are as
22. follows:
23. Other paid in capital \$184 million
24. Retained earnings \$16 million
25. Premium on capital stock \$49 million
26. Remainder \$334 million
27. The remainder of \$334 million is the excess purchase price over the fair value of
28. the assets acquired in the merger. This is the offsetting entry to the amount

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1. recorded as goodwill.
2. Q. Does this answer amend and replace your answer given at the hearing held on
3. August 2, 2000.
4. A. Yes, it does.
5. EXEMPTION FROM COMPETITIVE BIDDING
6. Q. Explain why the Company is asking for an exemption from the competitive
7. bidding and publication requirements under M.G.L. ch. 164, §15.
8. A. The Company has structured the PCRRB's such that the bonds can be issued
9. frequently to gain the interest rate savings benefits outlined in our response to
10. Information Request DTE 1-11. In this type of structure, a remarketing agent is
11. required to remarket the bonds each time an interest period expires. Notice and

## Untitled

12. competitive bidding for each remarketing would be impossible and preclude this
13. type of financing. A one-time bid might be possible, but would not be useful for
14. the reasons described below.
15. The firms that are able to offer remarketing services would essentially offer those
16. services for the same price, which is a quarterly fee based on a percentage (0.10%)
17. of the bonds outstanding for that quarter. Therefore, the only difference in cost
18. for the Company is that one firm may be able to remarket the bonds at a lower
19. interest rate than another firm. The Company has used three different firms as
20. remarketing agents for its tax exempt bonds in flexible interest rate mode. Prior
21. to the selection of Merrill, Lynch, Pierce, Fenner & Smith

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Incorporated as

22. remarketing agent for the Short Term Bonds, the Company's Corporate Finance

23. department compared the performance of the three agents for a ten month period

24. from September 1998 to June 1999. Merrill Lynch outperformed the competition

1. by an average margin of 12 basis points. The Company believes that using this

2. methodology it is better able to determine which remarketing agent will result in

3. the least overall cost of financing than through a publication of notice. In Western

4. Massachusetts Electric Company, D.P.U. 88-32 (1988) and in Eastern Edison

5. Company, D.P.U. 88-127 (1988), the Commission found that it was in the public

6. interest to exempt those companies from the requirements of M.G.L. ch 164, §15

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7. when an alternate means of practical competition was employed by those
8. companies. In those cases, the companies used the Statement of Policy provision
9. issued by the Securities and Exchange Commission as the alternate means
10. whereby more than one proposal was sought without publication. In our case, we
11. compared the performance of three agents using the data we thought would be the
12. best indicator of future performance. In our case, similar to Berkshire Gas
13. Company, D.P.U. 89-12 (1989), we believe there are interest rate savings and
14. expense savings garnered by using our methodology, and therefore the grant of
15. the exemption would be in the public interest.
- 16.

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17. Q. Does this conclude your testimony?

18. A. Yes?